

GASAB

Exposure Draft 7
Issued on 6 November 2007

Response by 5 February 2008

**Foreign Currency transactions and
Loss or Gain by Exchange Rate Variation**
Proposed Indian Government Accounting Standard

Issued for comment by

Government Accounting Standards Advisory Board

Request for comments

Government Accounting Standards Advisory Board (GASAB), constituted by the Comptroller and Auditor General of India, with the support of Government of India, to formulate and recommend Indian Government Accounting Standards, approved this Exposure Draft, **Foreign Currency transactions and Loss or Gain by exchange rate variation**, for publication. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being recommended by the Comptroller and Auditor General of India for notification by the President of India in the form of Indian Government Accounting Standard.

Please submit your comments so that they will be received by **February 5, 2008**. All comments will be considered a matter of public record.

Comments should be addressed to:

Member-Secretary
Government Accounting Standards Advisory Board
Office of the Comptroller and Auditor General of India
10, B. S. Zafar Marg
New Delhi 110 124
India
Phone: +91 11 2323 9374
Fax: + 91 11 2321 9854

Email responses should be sent to: srinivasG@cag.gov.in

Copies of this exposure draft may be downloaded free-of-charge from the GASAB website at <http://www.gasab.gov.in>

Contents

Description		Page Number
1.	Introduction	3
2.	Objective	4
3.	Scope	5
4.	Definitions	5
5.	Foreign Currency Transactions	7
6.	Treatment of Loss or Gain by exchange rate variation	8
7.	Disclosure	9
8.	Effective Date	10
9.	Format for disclosure	10

Indian Government Accounting Standard on Foreign Currency transactions and Loss or Gain by Exchange Rate Variation

The standards, which have been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type, and in the context of the "Preface to the Indian Government Accounting Standards." The Indian Government Accounting Standards are not intended to apply to immaterial items.

Introduction

1. Government Accounting Rules, 1990 require that the accounts of the Government shall be maintained in Indian currency i.e., Indian rupees. Indian rupee is the reporting currency for the financial statements of the Government. All transactions of the Union and State Governments taking place in other countries are passed periodically by the Indian Embassies/ Missions to India and brought to account finally in the Indian books after they have been converted into rupees. All transactions taking place with foreign Governments or foreign entities or international agencies in foreign currency are also to be recorded in the reporting currency applying exchange rate on the date of transaction.
2. The missions and embassies of India abroad incur expenditure on their operations including the pay and other entitlements of the officials employed there. They also make payments on behalf of other Ministries and Departments relating to defence, commerce, education as well as public sector undertakings and State Governments. These involve foreign currency transactions and loss or gain due to difference between exchange rate applicable and exchange rate internally adopted by Government like official rate of exchange or salary rate of exchange. Government may use various rates of exchange internally determined for foreign currency transactions that might give rise to loss or gain for accounting purpose.
3. Under Article 292 of the Constitution of India, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by the Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed. The Union Government may have bilateral and multi-lateral transactions involving foreign currency. This may involve borrowing or lending involving repayment of principal and payment of interest denominated in foreign currency and loss or gain by exchange rate variation.
4. In case of foreign currency loans to various projects, particularly by the World Bank, there are different procedures for disbursement. These are (i) Reimbursement through Special Account, (ii) Reimbursement outside Special Account, and (iii) Direct payment/ Commitment procedure. The Direct payment/ Commitment procedure involves direct

payment of foreign currency to contractor/ supplier/ consultants from the loan/ credit funds of the World Bank, as opted by the project implementing agency. The rupee equivalent of the foreign currency paid directly from the loan/credit is recoverable from the project implementing agency. However, under externally aided projects the Union Government releases additional central assistance towards disbursements under this procedure. But the rupee amount of the foreign currency paid directly from the loan/credit is recoverable from the project implementing agency.

5. The Union Government may float or may enter into agreement with designated bank(s), for example, the State Bank of India to float schemes involving foreign currency denominated bonds/ deposits, such as 'The NRI Bonds', 'India Millennium Deposits' and 'Resurgent India Bonds' for subscription by the Non-Resident Indians, Overseas Corporate Bodies or Banks acting in fiduciary capacity on their behalf. The proceeds may not flow into the Consolidated Fund of India and are either kept in the Public Account as in the case of the NRI Bonds or acquired by the Reserve Bank of India. However, the Government of India may bear or enter into an agreement with the issuing bank(s) to bear financial effect of exchange rate variations and contribute towards exchange loss or contribution for Maintenance of Value Account towards exchange loss partially or fully as part of its economic and fiscal policy.

6. Rupees securities issued to the international financial institutions such as the Asian Development Bank, International Bank of Reconstruction and Development (World Bank), International Development Association, International Fund for Agricultural Development, African Development Fund, African Development Bank are accounted for under 'internal debt' of the Central Government that may require repayment on encashment of rupee securities in convertible currencies giving rise to exchange difference.

7. Foreign currency transactions for acquisition of Special Drawing Rights (SDRs) at the IMF are accounted for under Special Deposit and Accounts-SDR at the IMF-Exchange Rate variations.

Objective

8. Government may have foreign currency transactions and loss or gain arising due to exchange rate variations. The objective of this standard is to provide accounting and disclosure requirements of foreign currency transactions and financial effects of exchange rate variations in terms of loss or gain in the financial statements. It also deals with the requirements of disclosure of foreign currency external debts and the rate applied for disclosure.

9. The principal issues in accounting and reporting for foreign currency transactions are to decide which exchange rate to apply and how to recognise in the financial statements the financial effects of exchange rate variations in terms of loss or gain while differentiating between loss or gain on Revenue Account and Capital Account.

Scope

10. *The Accounting Authority which prepares and presents the financial statements of the Government under the cash basis of accounting, as defined in the Government Accounting Rule 21 of GAR 1990 and Government Financial Rule 68 of GFR 2005 should apply this Standard:*

- (a) *in accounting and disclosure for transactions in foreign currencies;*
- (b) *in accounting and disclosure for financial effects of exchange variations in terms of loss or gain by exchange rate variation, and*
- (c) *in disclosure of foreign currency external debts and the rate(s) applied for disclosure.*

11. *Financial statements should not be described as complying with this Standard unless they comply with all its requirements.*

12. Generally, foreign currency transactions arise out of the transaction of the Union Government. However, State Governments may have transactions involving foreign currency or loss or gain by exchange thereon. This Standard shall apply to those foreign currency transactions of the State Governments.

13. This Standard deals with presentation of revenue and expenditure in terms of loss or gain by exchange rate variations arising from foreign currency transactions. It also deals with disclosure of foreign currency external debt.

14. This Standard does not deal with disclosure requirements of external guarantees. The requirements of disclosure of details of subsisting external guarantees in terms of Indian rupees on the date of financial statements have been dealt with in IGAS1 'Guarantees given by Governments: Disclosure Requirements'.

15. The Reserve Bank of India is the custodian of foreign currency and foreign exchange reserves and this Standard does not deal with foreign currency reserves.

Definitions

16. *In this standard, unless the context otherwise requires-*

Accounting authority *is the authority which prepares the financial statements of the Government;*

Capital account *means a division of Government accounts wherein receipts and expenditure of capital nature are accounted for;*

Closing rate *is the exchange rate at the date of financial statements;*

Composite rate is the rate arrived at by adding 1% on the BC selling rate for the date & if the designated bank does not deal in foreign exchange, the composite rate of exchange is arrived at by adding 1% on the RBI Buying Rate for the value date of payment to contractor / supplier / consultants;

Consolidated Fund of India or Consolidated Fund of State means the Consolidated Fund referred to in Article 266 (l) of the Constitution of India;

Cross currency swap agreement is an financial agreement between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency;

Direct Payment Procedure involves direct payment of foreign currency to contractor / supplier / consultants from the loan / credit funds of the World Bank, as opted by the project implementing agency;

Exchange rate is the ratio for exchange of two currencies;

Exchange rate variation means change in the ratio for exchange of two currencies;

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates;

External guarantee means a guarantee against liability denominated in foreign currency;

Financial Statements mean the Annual Finance Accounts of the Governments;

Foreign currency means a currency other than the reporting currency of the Government;

Forward rate means the specified exchange rate for exchange of two currencies at a specified future date

Government means the Central (Union) Government or a State Government, or a Union Territory Government, or more than one of the three, as the context may imply;

Government accounts mean the form and divisions of accounts and accounting records in which all transactions of Government are accounted for;

Guarantee is an accessory contract, by which the promisor undertakes to be answerable to the promisee for the debt, default or miscarriage of another person, whose primary liability to the promisee must exist or be contemplated;

Indian currency means currency which is expressed or drawn in Indian rupees;

Contributions to Maintenance of Value Account (MVA) the exchange charge that government bears on contracted liability of foreign exchange

Monetary Items mean money held and assets and liabilities to be received or paid in fixed or determinable amounts of money

Non-monetary items mean items which are not monetary items

Official rate of exchange means official accounting rate of exchange between Indian rupees and foreign currencies determined and issued by the Ministry of External Affairs, Government of India periodically;

Public Account means the Public Account of India referred to in Article 266(2) of the Constitution of India;

Public Sector Undertaking means government companies incorporated under the Companies Act, 1956 and Statutory Corporations set up under the specific Acts of Parliament and State Legislatures, as the context may imply;

Reporting currency means Indian Rupees;

Revenue account means a division of Government accounts wherein receipts and expenditure of revenue nature are accounted for;

Salary Rate of Exchange means the rate of exchange between the reporting currency and foreign currency fixed by Ministry of External Affairs, Government of India for disbursement of salary of the officials posted at Mission abroad;

Special Drawing Right means the international reserve asset created by the International Monetary Fund;

Foreign Currency Transactions

17. A Foreign currency transaction of Government is a transaction which is denominated in or requires settlement in a foreign currency. This may include:

- (a) transactions arising due to operations of the missions and embassies abroad and payments made by them including those on behalf of other Ministries and Departments relating to defence, commerce, education as well as public sector undertakings and State Governments;
- (b) bilateral and multi-lateral foreign currency transactions involving borrowing or lending ;
- (c) purchasing/ selling goods or services where purchase/ sale price is denominated in foreign currency;
- (d) transactions arising from the schemes involving foreign currency namely 'The NRI Bonds', the flow of which goes to Government account;
- (e) transactions for acquisition of Special Drawing Rights at the International Monetary Fund;
- (f) rupees securities issued to the international financial institutions which are accounted for under the head internal debt of the Central Government but

requiring repayment on encashment of rupee securities in convertible currencies.

18. *A foreign currency transaction of Government shall be reported in the reporting currency by applying to the foreign currency amount, exchange rate between the reporting currency and the foreign currency at the date of receipts and payments.*

19. The exchange rate at the date of receipts and payments is the rate as determined by the Government of India for the purpose viz, salary rate, official rate, composite rate etc or else the rate as indicated by the Reserve Bank of India in its buying and selling rate issued everyday.

Treatment of Loss or Gain by Exchange Rate Variation

20. Paragraphs 23 to 28 set out the accounting treatment required by this Standard with respect to loss or gain by exchange rate variations and exchange difference on different types of foreign currency transactions.

21. *All losses or gains by exchange rate variation in respect of Government transactions in foreign currency shall be recognised as revenue loss or gain except those dealt with in paragraph 26 & 27.*

22. *Net revenue gain or loss by exchange rate variations in respect of Government transactions in foreign currencies shall be accounted for as revenue expenditure or revenue receipt in the financial statements.*

23. *Net revenue loss or gain by exchange rate variation on such foreign currency transactions the flows of which do not become part of Government account shall be accounted for as revenue expenditure or revenue receipt, as the case may be.*

24. Government may have losses or gains by exchange rate variations on its operating activities like operation of its missions abroad as mentioned in paragraph 2 above or due to contractual commitments to bear the financial effect of exchange rate variations as part of its fiscal and economic policy as mentioned in paragraph 4 above. There can be loss or gain on account of deposits made by importers or disbursement made against agreements for loan /grants by foreign banks under Direct Payment Procedure. All losses or gains or contribution towards loss arising due to exchange rate variations on account of General services and Economic services are accounted for in the revenue head as they are treated as current receipts or expenditure of Government.

25. *Loss or gain arising out of transactions for acquisition of Special Drawing Rights at the International Monetary Fund shall be reported in the financial statements.*

26. Exchange difference arising out of repayment of foreign currency loans and in respect of encashment of rupees securities by International Financial Institutions shall be written off annually.

27. Exchange difference may arise out of Government's financing activities like borrowing of loans denominated in foreign currencies and issuing of rupees securities as mentioned at paragraphs 3 to 7 above. External borrowings of the Government are recorded at the historical rate of exchange i.e., rate of exchange prevailing at the date of transaction. As most of the loans have long repayment period(s), their repayment extends over several years. Meanwhile, exchange rate(s) may undergo significant changes. If the exchange rate is higher at the time of repayment, repayment of loans in Indian rupees exceed the rupee amount of loan drawn.

28. Unrealized gain or losses arise from changes in foreign currency exchange rates and represents differences between the same amount of foreign currency reported by applying exchange rate at the date of transaction and at the closing date of the financial statements. These are not cash receipts or payments. Further, in the context of Government in India, the Government does not hold cash in foreign currency as the same is dealt with by the RBI. For the purpose of Government reporting, there may not be unrealised gains or losses on account of effect of exchange rate changes on cash held. However, there may be unrealised gains or losses on account of foreign currency external debt to be repaid.

Disclosure

29. The financial statements shall disclose rates of exchange adopted internally by the Government for different types of foreign currency transactions including forward contract rate, if any, along with their basis as part of Statement of Accounting Policies.

30. The financial statements shall disclose the following details of foreign loans in the format given in paragraph 34:

- (a) loans outstanding on historical cost basis at the beginning and end of the year;**
- (b) loans outstanding on closing rate basis at the beginning and end of the year,**
- (c) additions during the year in foreign currency terms and in Indian Rupee;**
- (d) discharge during the year showing separately amount paid due to loss by exchange rate variation;**
- (e) interest paid on external debt ; and**
- (f) closing rate of exchange applied.**

31. *Financial statements shall disclose in the notes the following:*

- (a) category-wise gross figure of loss and gain by exchange rate variation for the financial year;*
- (b) loss and gain by exchange rate variation separately for Capital Head transactions and Revenue Head transactions;*
- (c) amount of loan and exchange difference in respect of fully repaid loans;*
- (d) amount of unrealised gain or loss on account of foreign currency external debt to be repaid;*
- (e) amount of loss or gain, if any, on cross-currency swap agreements.*

32. Category-wise foreign currency transactions includes those that are mentioned at paragraph 18 (a) to (f). In addition, it also includes transactions whose proceeds may not enter into the Government account.

Effective Date

33. *This Indian Government Accounting Standard becomes effective for financial statements covering periods beginning on or after the date of notification of the IGAS in Government Gazette.*

Formats for disclosure

34. Format for disclosure of details of foreign loans as stipulated in paragraph 30 above:

Description of Loan	Amount outstanding at the beginning of the financial year		Additions during the financial year		Discharge during the financial year	
	On historical cost basis (Rs)	On closing rate basis (Rs)	In foreign currency (Units of foreign currency)	In Rs.	Repaid on historical cost basis (Rs.)	Amount paid due to loss by exchange (Rs.)
1	2	3	4	5	6	7

Total (Rs.) ((6) + (7))	Amount outstanding at the end of the year		Interest paid on debt raised outside India	Closing rate applied
	On historical cost basis (Rs.)	On closing rate basis (Rs.)		
8	9	10	11	12